

Message Text

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C O N F I D E N T I A L CARACAS 8376

E.O. 11652: GDS

TAGS: EFIN, EALR, ENRG, VE

SUBJECT: VENEZUELA INVESTMENT FUND - ALCASA LOAN

1. SUMMARY. THE VENEZUELA INVESTMENT FUND CONCLUDED A LARGE LOAN FOR EXPANSION OF THE ALCASA ALUMINUM COMPANY. IN DISCUSSING THE LOAN, THE PRESIDENT OF THE FUND ACKNOWLEDGED THE NEED FOR EXTERNAL CREDIT TO FINANCE VENEZUELAN DEVELOPMENT. HE ALSO ACKNOWLEDGED THE LINK BETWEEN VENEZUELA'S FOREIGN ASSISTANCE AND NEED TO DEFUSE THE OIL PRICE ISSUE. END SUMMARY.

2. THE VENEZUELA INVESTMENT FUND CONCLUDED A CONTRACT AUGUST 12, 1975 TO LOAN ALCASA (ALUMINIO DEL CARONI) ALUMINUM COMPANY BS. 300 MILLION (\$70 MILLION) TOWARDS EXPANSION OF ITS CAPACITY FROM 46,000 TONS TO ALMOST 120,000 TONS PER YEAR. ALCASA, WHICH IS JOINTLY OWNED BY REYNOLDS INTERNATIONAL AND THE AUTONOMOUS STATE ENTERPRISE, CORPORACION VENEZOLANA DE GUYANA (CVG), EXPECTS TO OBTAIN ANOTHER BS. 300 MILLION FOR THE EXPANSION FROM FOREIGN CREDIT SOURCES.

3. DR. CONSTANTINO QUERO MORALES, PRESIDENT OF THE FUND, SAID THAT THE ALCASA DEAL WAS THE THIRD UNDERTAKEN BY THE FUND TO FINANCE DOMESTIC DEVELOPMENT PROJECTS. THE OTHERS WERE A BS.400 MILLION SUBSCRIPTION TO THE CAPITAL OF THE VENEZUELAN NAVIGATION
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COMPANY (CAVN) PLUS A LOAN TO CAVN OF BS.66 MILLION FOR THE

ACQUISITION OF TEN FREIGHTERS; AND A BS. 196 MILLION LOAN TO THE AGRICULTURAL DEVELOPMENT BANK TO FINANCE GRAIN SILOS. HE SAID THE FUND ANTICIPATES SPENDING BS. 41 BILLION ON DOMESTIC DEVELOPMENT PROJECTS IN THE NEXT FOUR YEARS.

4. ASKED WHY VENEZUELA NEEDED TO OBTAIN FINANCING ABROAD AT THE SAME TIME THE FUND WAS MAKING LOANS TO THIRD COUNTRIES, QUERO MORALES IS REPORTED TO HAVE SAID, "VENEZUELA WAS FORCED TO FINANCE PROJECTS OF UNDERDEVELOPED ECONOMIES AS A STRATEGIC MOVE IN THE DEFENSE OF OIL PRICES. IF THE OIL EXPORTING COUNTRIES HAD ADOPTED THE SELFISH ATTITUDE OF BEING MERE SPECTATORS AND NOT PROMOTING THE RECYCLING OF PART OF THEIR INCOME TO THE REST OF THE WORLD MONETARY MARKET, A SITUATION OF UNRELENTING DETERIORATION WOULD HAVE OCCURRED. IT WOULD HAVE CREATED AN ADVERSE INTERNATIONAL CLIMATE WHICH WOULD HAVE SET BACK THE MOVE TOWARD GREATER OIL PRICE INCREASES. A COUNTRY SUCH AS OURS, WHICH PROPOSES TO FINANCE THE WEAKER ECONOMIES FOR STRATEGIC REASONS, SHOULD TAKE ADVANTAGE OF ITS NEGOTIATING POSITION TO CAPTURE FUNDS IN THE FOREIGN FINANCIAL MARKETS."

5. QUERO MORALES NOTED THAT VENEZUELA HAS RECYCLED APPROXIMATELY 4 PERCENT OF ITS GNP WHILE THE INDUSTRIALIZED COUNTRIES CONTRIBUTE BETWEEN 0.34 AND 0.70 PERCENT OF THEIR GNP IN THE FORM OF FOREIGN AID.

6. COMMENT: QUERO MORALES' REMARKS ARE SIGNIFICANT BECAUSE 1) IT IS THE FIRST TIME, AS FAR AS THE EMBASSY KNOWS, THAT A GOV HIGH-LEVEL OFFICIAL HAS ADMITTED PUBLICLY THAT THE FUND'S ASSISTANCE TO THIRD COUNTRIES AND INTERNATIONAL LENDING INSTITUTIONS WAS ESSENTIALLY "HUSH MONEY" TO AVOID CRITICISM ABOUT THE INCREASES IN OIL PRICES RATHER THAN ALTRUISM, AND 2) AN ACKNOWLEDGEMENT THAT VENEZUELA'S OIL REVENUE WILL BE INSUFFICIENT TO FINANCE ALL THE COUNTRY'S INTERNAL DEVELOPMENT PROJECTS. THE LATTER MAY MODIFY ATTITUDES TOWARD FOREIGN INVESTMENT, WHICH THE GOVERNMENT NOW SHOULD BE MORE RELUCTANT TO DRIVE AWAY THROUGH OVER-REGULATION.
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